

108TH CONGRESS
1ST SESSION

H. R. 1528

To amend the Internal Revenue Code of 1986 to protect taxpayers and ensure accountability of the Internal Revenue Service.

IN THE HOUSE OF REPRESENTATIVES

APRIL 1, 2003

Mr. PORTMAN introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to protect taxpayers and ensure accountability of the Internal Revenue Service.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3

4 **SECTION 1. SHORT TITLE; ETC.**

5 (a) SHORT TITLE.—This Act may be cited as the
6 “Taxpayer Protection and IRS Accountability Act of
7 2003”.

8 (b) AMENDMENT OF 1986 CODE.—Except as other-
9 wise expressly provided, whenever in this Act an amend-
10 ment or repeal is expressed in terms of an amendment

1 to, or repeal of, a section or other provision, the reference
 2 shall be considered to be made to a section or other provi-
 3 sion of the Internal Revenue Code of 1986.

4 (c) TABLE OF CONTENTS.—

Sec. 1. Short title; etc.

TITLE I—PENALTY AND INTEREST REFORMS

- Sec. 101. Failure to pay estimated tax penalty converted to interest charge on accumulated unpaid balance.
- Sec. 102. Exclusion from gross income for interest on overpayments of income tax by individuals.
- Sec. 103. Abatement of interest.
- Sec. 104. Deposits made to suspend running of interest on potential underpayments.
- Sec. 105. Expansion of interest netting for individuals.
- Sec. 106. Waiver of certain penalties for first-time unintentional minor errors.
- Sec. 107. Frivolous tax submissions.
- Sec. 108. Clarification of application of Federal tax deposit penalty.

TITLE II—FAIRNESS OF COLLECTION PROCEDURES

- Sec. 201. Partial payment of tax liability in installment agreements.
- Sec. 202. Extension of time for return of property.
- Sec. 203. Individuals held harmless on wrongful levy, etc., on individual retirement plan.
- Sec. 204. Seven-day threshold on tolling of statute of limitations during tax review.
- Sec. 205. Study of liens and levies.

TITLE III—TAX ADMINISTRATION REFORMS

- Sec. 301. Revisions relating to termination of employment of Internal Revenue Service employees for misconduct.
- Sec. 302. Confirmation of authority of tax court to apply doctrine of equitable recoupment.
- Sec. 303. Jurisdiction of tax court over collection due process cases.
- Sec. 304. Office of Chief Counsel review of offers in compromise.
- Sec. 305. 15-day delay in due date for electronically filed individual income tax returns.
- Sec. 306. Access of National Taxpayer Advocate to independent legal counsel.
- Sec. 307. Payment of motor fuel excise tax refunds by direct deposit.
- Sec. 308. Family business tax simplification.
- Sec. 309. Health insurance costs of eligible individuals.
- Sec. 310. Suspension of tax-exempt status of terrorist organizations.

TITLE IV—CONFIDENTIALITY AND DISCLOSURE

- Sec. 401. Collection activities with respect to joint return disclosable to either spouse based on oral request.
- Sec. 402. Taxpayer representatives not subject to examination on sole basis of representation of taxpayers.

- Sec. 403. Disclosure in judicial or administrative tax proceedings of return and return information of persons who are not party to such proceedings.
- Sec. 404. Prohibition of disclosure of taxpayer identification information with respect to disclosure of accepted offers-in-compromise.
- Sec. 405. Compliance by contractors with confidentiality safeguards.
- Sec. 406. Higher standards for requests for and consents to disclosure.
- Sec. 407. Notice to taxpayer concerning administrative determination of browsing; annual report.
- Sec. 408. Expanded disclosure in emergency circumstances.
- Sec. 409. Disclosure of taxpayer identity for tax refund purposes.
- Sec. 410. Disclosure to State officials of proposed actions related to section 501(c)(3) organizations.
- Sec. 411. Confidentiality of taxpayer communications with the Office of the Taxpayer Advocate.

TITLE V—MISCELLANEOUS

- Sec. 501. Clarification of definition of church tax inquiry.
- Sec. 502. Expansion of declaratory judgment remedy to tax-exempt organizations.
- Sec. 503. Employee misconduct report to include summary of complaints by category.
- Sec. 504. Annual report on awards of costs and certain fees in administrative and court proceedings.
- Sec. 505. Annual report on abatement of penalties.
- Sec. 506. Better means of communicating with taxpayers.
- Sec. 507. Explanation of statute of limitations and consequences of failure to file.
- Sec. 508. Amendment to treasury auction reforms.
- Sec. 509. Enrolled agents.
- Sec. 510. Financial management service fees.
- Sec. 511. Extension of Internal Revenue Service user fees.

TITLE VI—LOW-INCOME TAXPAYER CLINICS

- Sec. 601. Low-income taxpayer clinics.

TITLE VII—FEDERAL-STATE UNEMPLOYMENT ASSISTANCE AGREEMENTS.

- Sec. 701. Applicability of certain Federal-State agreements relating to unemployment assistance.

TITLE I—PENALTY AND INTEREST REFORMS

SEC. 101. FAILURE TO PAY ESTIMATED TAX PENALTY CON- VERTED TO INTEREST CHARGE ON ACCUMU- LATED UNPAID BALANCE.

(a) PENALTY MOVED TO INTEREST CHAPTER OF CODE.—The Internal Revenue Code of 1986 is amended by redesignating section 6654 as section 6641 and by moving section 6641 (as so redesignated) from part I of subchapter A of chapter 68 to the end of subchapter E of chapter 67 (as added by subsection (e)(1) of this section).

(b) PENALTY CONVERTED TO INTEREST CHARGE.—The heading and subsections (a) and (b) of section 6641 (as so redesignated) are amended to read as follows:

“SEC. 6641. INTEREST ON FAILURE BY INDIVIDUAL TO PAY ESTIMATED INCOME TAX.

“(a) IN GENERAL.—Interest shall be paid on any underpayment of estimated tax by an individual for a taxable year for each day of such underpayment. The amount of such interest for any day shall be the product of the underpayment rate established under subsection (b)(2) multiplied by the amount of the underpayment.

“(b) AMOUNT OF UNDERPAYMENT; INTEREST RATE.—For purposes of subsection (a)—

1 “(1) AMOUNT.—The amount of the under-
2 payment on any day shall be the excess of—

3 “(A) the sum of the required installments
4 for the taxable year the due dates for which are
5 on or before such day, over

6 “(B) the sum of the amounts (if any) of
7 estimated tax payments made on or before such
8 day on such required installments.

9 “(2) DETERMINATION OF INTEREST RATE.—

10 “(A) IN GENERAL.—The underpayment
11 rate with respect to any day in an installment
12 underpayment period shall be the under-
13 payment rate established under section 6621
14 for the first day of the calendar quarter in
15 which such installment underpayment period
16 begins.

17 “(B) INSTALLMENT UNDERPAYMENT PE-
18 RIOD.—For purposes of subparagraph (A), the
19 term ‘installment underpayment period’ means
20 the period beginning on the day after the due
21 date for a required installment and ending on
22 the due date for the subsequent required in-
23 stallment (or in the case of the 4th required in-
24 stallment, the 15th day of the 4th month fol-
25 lowing the close of a taxable year).

1 “(C) DAILY RATE.—The rate determined
 2 under subparagraph (A) shall be applied on a
 3 daily basis and shall be based on the assump-
 4 tion of 365 days in a calendar year.

5 “(3) TERMINATION OF ESTIMATED TAX INTER-
 6 EST.—No day after the end of the installment un-
 7 derpayment period for the 4th required installment
 8 specified in paragraph (2)(B) for a taxable year
 9 shall be treated as a day of underpayment with re-
 10 spect to such taxable year.”.

11 (c) INCREASE IN SAFE HARBOR WHERE TAX IS
 12 SMALL.—

13 (1) IN GENERAL.—Clause (i) of section
 14 6641(d)(1)(B) (as so redesignated) is amended to
 15 read as follows:

16 “(i) the lesser of—

17 “(I) 90 percent of the tax shown
 18 on the return for the taxable year (or,
 19 if no return is filed, 90 percent of the
 20 tax for such year), or

21 “(II) the tax shown on the return
 22 for the taxable year (or, if no return
 23 is filed, the tax for such year) reduced
 24 (but not below zero) by \$1,600, or”.

1 (2) CONFORMING AMENDMENT.—Subsection (e)
2 of section 6641 (as so redesignated) is amended by
3 striking paragraph (1) and redesignating paragraphs
4 (2) and (3) as paragraphs (1) and (2), respectively.

5 (d) CONFORMING AMENDMENTS.—

6 (1) Paragraphs (1) and (2) of subsection (e)
7 (as redesignated by subsection (c)(2)) and sub-
8 section (h) of section 6641 (as so designated) are
9 each amended by striking “addition to tax” each
10 place it occurs and inserting “interest”.

11 (2) Section 167(g)(5)(D) is amended by strik-
12 ing “6654” and inserting “6641”.

13 (3) Section 460(b)(1) is amended by striking
14 “6654” and inserting “6641”.

15 (4) Section 3510(b) is amended—

16 (A) by striking “section 6654” in para-
17 graph (1) and inserting “section 6641”;

18 (B) by amending paragraph (2)(B) to read
19 as follows:

20 “(B) no interest would be required to be
21 paid (but for this section) under 6641 for such
22 taxable year by reason of the \$1,600 amount
23 specified in section 6641(d)(1)(B)(i)(II).”;

1 (C) by striking “section 6654(d)(2)” in
2 paragraph (3) and inserting “section
3 6641(d)(2)”; and

4 (D) by striking paragraph (4).

5 (5) Section 6201(b)(1) is amended by striking
6 “6654” and inserting “6641”.

7 (6) Section 6601(h) is amended by striking
8 “6654” and inserting “6641”.

9 (7) Section 6621(b)(2)(B) is amended by strik-
10 ing “addition to tax under section 6654” and insert-
11 ing “interest required to be paid under section
12 6641”.

13 (8) Section 6622(b) is amended—

14 (A) by striking “PENALTY FOR” in the
15 heading; and

16 (B) by striking “addition to tax under sec-
17 tion 6654 or 6655” and inserting “interest re-
18 quired to be paid under section 6641 or addi-
19 tion to tax under section 6655”.

20 (9) Section 6658(a) is amended—

21 (A) by striking “6654, or 6655” and in-
22 serting “or 6655, and no interest shall be re-
23 quired to be paid under section 6641,”; and

24 (B) by inserting “or paying interest” after
25 “the tax” in paragraph (2)(B)(ii).

1 (10) Section 6665(b) is amended—

2 (A) in the matter preceding paragraph (1)

3 by striking “, 6654,”; and

4 (B) in paragraph (2) by striking “6654
5 or”.

6 (11) Section 7203 is amended by striking “sec-
7 tion 6654 or 6655” and inserting “section 6655 or
8 interest required to be paid under section 6641”.

9 (e) CLERICAL AMENDMENTS.—

10 (1) Chapter 67 is amended by inserting after
11 subchapter D the following:

12 **“Subchapter E—Interest on Failure by**
13 **Individual to Pay Estimated Income Tax**

“Sec. 6641. Interest on failure by individual to pay estimated in-
come tax.”.

14 (2) The table of subchapters for chapter 67 is
15 amended by adding at the end the following new
16 items:

“Subchapter D. Notice requirements.

“Subchapter E. Interest on failure by individual to pay estimated
income tax.”.

17 (3) The table of sections for part I of sub-
18 chapter A of chapter 68 is amended by striking the
19 item relating to section 6654.

20 (f) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to installment payments for taxable
22 years beginning after December 31, 2003. SEC.

1 102. EXCLUSION FROM GROSS INCOME FOR IN-
 2 TEREST ON OVERPAYMENTS OF INCOME TAX
 3 BY INDIVIDUALS.

4 (a) IN GENERAL.—Part III of subchapter B of chap-
 5 ter 1 (relating to items specifically excluded from gross
 6 income) is amended by inserting after section 139 the fol-
 7 lowing new section:

8 **“SEC. 139A. EXCLUSION FROM GROSS INCOME FOR INTER-
 9 EST ON OVERPAYMENTS OF INCOME TAX BY
 10 INDIVIDUALS.**

11 “(a) IN GENERAL.—In the case of an individual,
 12 gross income shall not include interest paid under section
 13 6611 on any overpayment of tax imposed by this subtitle.

14 “(b) EXCEPTION.—Subsection (a) shall not apply in
 15 the case of a failure to claim items resulting in the over-
 16 payment on the original return if the Secretary determines
 17 that the principal purpose of such failure is to take advan-
 18 tage of subsection (a).

19 “(c) SPECIAL RULE FOR DETERMINING MODIFIED
 20 ADJUSTED GROSS INCOME.—For purposes of this title,
 21 interest not included in gross income under subsection (a)
 22 shall not be treated as interest which is exempt from tax
 23 for purposes of sections 32(i)(2)(B) and 6012(d) or any
 24 computation in which interest exempt from tax under this
 25 title is added to adjusted gross income.”.

1 (b) CLERICAL AMENDMENT.—The table of sections
 2 for part III of subchapter B of chapter 1 is amended by
 3 inserting after the item relating to section 139 the fol-
 4 lowing new item:

“Sec. 139A. Exclusion from gross income for interest on over-
 payments of income tax by individuals.”.

5 (c) EFFECTIVE DATE.—The amendments made by
 6 this section shall apply to interest received in calendar
 7 years beginning after the date of the enactment of this
 8 Act.

9 **SEC. 103. ABATEMENT OF INTEREST.**

10 (a) ABATEMENT OF INTEREST WITH RESPECT TO
 11 ERRONEOUS REFUND CHECK WITHOUT REGARD TO SIZE
 12 OF REFUND.—Paragraph (2) of section 6404(e) is amend-
 13 ed by striking “unless—” and all that follows and insert-
 14 ing “unless the taxpayer (or a related party) has in any
 15 way caused such erroneous refund.”.

16 (b) ABATEMENT OF INTEREST TO EXTENT INTER-
 17 EST IS ATTRIBUTABLE TO TAXPAYER RELIANCE ON
 18 WRITTEN STATEMENTS OF THE IRS.—Subsection (f) of
 19 section 6404 is amended—

20 (1) in the subsection heading, by striking
 21 “PENALTY OR ADDITION” and inserting “INTEREST,
 22 PENALTY, OR ADDITION”; and

1 (2) in paragraph (1) and in subparagraph (B)
 2 of paragraph (2), by striking “penalty or addition”
 3 and inserting “interest, penalty, or addition”.

4 (c) EFFECTIVE DATE.—The amendments made by
 5 this section shall apply with respect to interest accruing
 6 on or after the date of the enactment of this Act.

7 **SEC. 104. DEPOSITS MADE TO SUSPEND RUNNING OF IN-**
 8 **TEREST ON POTENTIAL UNDERPAYMENTS.**

9 (a) IN GENERAL.—Subchapter A of chapter 67 (re-
 10 lating to interest on underpayments) is amended by add-
 11 ing at the end the following new section:

12 **“SEC. 6603. DEPOSITS MADE TO SUSPEND RUNNING OF IN-**
 13 **TEREST ON POTENTIAL UNDERPAYMENTS,**
 14 **ETC.**

15 “(a) AUTHORITY TO MAKE DEPOSITS OTHER THAN
 16 AS PAYMENT OF TAX.—A taxpayer may make a cash de-
 17 posit with the Secretary which may be used by the Sec-
 18 retary to pay any tax imposed under subtitle A or B or
 19 chapter 41, 42, 43, or 44 which has not been assessed
 20 at the time of the deposit. Such a deposit shall be made
 21 in such manner as the Secretary shall prescribe.

22 “(b) NO INTEREST IMPOSED.—To the extent that
 23 such deposit is used by the Secretary to pay tax, for pur-
 24 poses of section 6601 (relating to interest on underpay-

1 ments), the tax shall be treated as paid when the deposit
2 is made.

3 “(c) RETURN OF DEPOSIT.—Except in a case where
4 the Secretary determines that collection of tax is in jeop-
5 ardy, the Secretary shall return to the taxpayer any
6 amount of the deposit (to the extent not used for a pay-
7 ment of tax) which the taxpayer requests in writing.

8 “(d) PAYMENT OF INTEREST.—

9 “(1) IN GENERAL.—For purposes of section
10 6611 (relating to interest on overpayments), a de-
11 posit which is returned to a taxpayer shall be treated
12 as a payment of tax for any period to the extent
13 (and only to the extent) attributable to a disputable
14 tax for such period. Under regulations prescribed by
15 the Secretary, rules similar to the rules of section
16 6611(b)(2) shall apply.

17 “(2) DISPUTABLE TAX.—

18 “(A) IN GENERAL.—For purposes of this
19 section, the term ‘disputable tax’ means the
20 amount of tax specified at the time of the de-
21 posit as the taxpayer’s reasonable estimate of
22 the maximum amount of any tax attributable to
23 disputable items.

24 “(B) SAFE HARBOR BASED ON 30-DAY
25 LETTER.—In the case of a taxpayer who has

1 been issued a 30-day letter, the maximum
2 amount of tax under subparagraph (A) shall
3 not be less than the amount of the proposed de-
4 ficiency specified in such letter.

5 “(3) OTHER DEFINITIONS.—For purposes of
6 paragraph (2)—

7 “(A) DISPUTABLE ITEM.—The term ‘dis-
8 putable item’ means any item of income, gain,
9 loss, deduction, or credit if the taxpayer—

10 “(i) has a reasonable basis for its
11 treatment of such item, and

12 “(ii) reasonably believes that the Sec-
13 retary also has a reasonable basis for dis-
14 allowing the taxpayer’s treatment of such
15 item.

16 “(B) 30-DAY LETTER.—The term ‘30-day
17 letter’ means the first letter of proposed defi-
18 ciency which allows the taxpayer an opportunity
19 for administrative review in the Internal Rev-
20 enue Service Office of Appeals.

21 “(4) RATE OF INTEREST.—The rate of interest
22 allowable under this subsection shall be the Federal
23 short-term rate determined under section 6621(b),
24 compounded daily.

25 “(e) USE OF DEPOSITS.—

1 “(1) PAYMENT OF TAX.—Except as otherwise
2 provided by the taxpayer, deposits shall be treated
3 as used for the payment of tax in the order depos-
4 ited.

5 “(2) RETURNS OF DEPOSITS.—Deposits shall
6 be treated as returned to the taxpayer on a last-in,
7 first-out basis.”.

8 (b) CLERICAL AMENDMENT.—The table of sections
9 for subchapter A of chapter 67 is amended by adding at
10 the end the following new item:

 “Sec. 6603. Deposits made to suspend running of interest on po-
 tential underpayments, etc.”.

11 (c) EFFECTIVE DATE.—

12 (1) IN GENERAL.—The amendments made by
13 this section shall apply to deposits made after the
14 date of the enactment of this Act.

15 (2) COORDINATION WITH DEPOSITS MADE
16 UNDER REVENUE PROCEDURE 84 0958.—In the case
17 of an amount held by the Secretary of the Treasury
18 or his delegate on the date of the enactment of this
19 Act as a deposit in the nature of a cash bond deposit
20 pursuant to Revenue Procedure 84 0958, the date
21 that the taxpayer identifies such amount as a de-
22 posit made pursuant to section 6603 of the Internal
23 Revenue Code (as added by this Act) shall be treat-

1 ed as the date such amount is deposited for pur-
2 poses of such section 6603.

3 **SEC. 105. EXPANSION OF INTEREST NETTING FOR INDIVID-**
4 **UALS.**

5 (a) IN GENERAL.—Subsection (d) of section 6621
6 (relating to elimination of interest on overlapping periods
7 of tax overpayments and underpayments) is amended by
8 adding at the end the following: “Solely for purposes of
9 the preceding sentence, section 6611(e) shall not apply in
10 the case of an individual.”.

11 (b) EFFECTIVE DATE.—The amendment made by
12 subsection (a) shall apply to interest accrued after Decem-
13 ber 31, 2003.

14 **SEC. 106. WAIVER OF CERTAIN PENALTIES FOR FIRST-TIME**
15 **UNINTENTIONAL MINOR ERRORS.**

16 (a) IN GENERAL.—Section 6651 (relating to failure
17 to file tax return or to pay tax) is amended by adding
18 at the end the following new subsection:

19 “(i) TREATMENT OF FIRST-TIME UNINTENTIONAL
20 MINOR ERRORS.—

21 “(1) IN GENERAL.—In the case of a return of
22 tax imposed by subtitle A filed by an individual, the
23 Secretary may waive an addition to tax under sub-
24 section (a) if—

1 “(A) the individual has a history of compli-
2 ance with the requirements of this title,

3 “(B) it is shown that the failure is due to
4 an unintentional minor error,

5 “(C) the penalty would be grossly dis-
6 proportionate to the action or expense that
7 would have been needed to avoid the error, and
8 imposing the penalty would be against equity
9 and good conscience,

10 “(D) waiving the penalty would promote
11 compliance with the requirements of this title
12 and effective tax administration, and

13 “(E) the taxpayer took all reasonable steps
14 to remedy the error promptly after discovering
15 it.

16 “(2) EXCEPTIONS.—Paragraph (1) shall not
17 apply if—

18 “(A) the Secretary has waived any addition
19 to tax under this subsection with respect to any
20 prior failure by such individual,

21 “(B) the failure is a mathematical or cler-
22 ical error (as defined in section 6213(g)(2)), or

23 “(C) the failure is the lack of a required
24 signature.”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall take effect on January 1, 2004.

3 **SEC. 107. FRIVOLOUS TAX SUBMISSIONS.**

4 (a) CIVIL PENALTIES.—Section 6702 is amended to
5 read as follows:

6 **“SEC. 6702. FRIVOLOUS TAX SUBMISSIONS.**

7 “(a) CIVIL PENALTY FOR FRIVOLOUS TAX RE-
8 TURNS.—A person shall pay a penalty of \$5,000 if—

9 “(1) such person files what purports to be a re-
10 turn of a tax imposed by this title but which—

11 “(A) does not contain information on
12 which the substantial correctness of the self-as-
13 sessment may be judged, or

14 “(B) contains information that on its face
15 indicates that the self-assessment is substan-
16 tially incorrect; and

17 “(2) the conduct referred to in paragraph (1)—

18 “(A) is based on a position which the Sec-
19 retary has identified as frivolous under sub-
20 section (c), or

21 “(B) reflects a desire to delay or impede
22 the administration of Federal tax laws.

23 “(b) CIVIL PENALTY FOR SPECIFIED FRIVOLOUS
24 SUBMISSIONS.—

1 “(1) IMPOSITION OF PENALTY.—Except as pro-
2 vided in paragraph (3), any person who submits a
3 specified frivolous submission shall pay a penalty of
4 \$5,000.

5 “(2) SPECIFIED FRIVOLOUS SUBMISSION.—For
6 purposes of this section—

7 “(A) SPECIFIED FRIVOLOUS SUBMIS-
8 SION.—The term ‘specified frivolous submis-
9 sion’ means a specified submission if any por-
10 tion of such submission is based on a position
11 which the Secretary has identified as frivolous
12 under subsection (c).

13 “(B) SPECIFIED SUBMISSION.—The term
14 ‘specified submission’ means—

15 “(i) a request for a hearing under—

16 “(I) section 6320 (relating to no-
17 tice and opportunity for hearing upon
18 filing of notice of lien), or

19 “(II) section 6330 (relating to
20 notice and opportunity for hearing be-
21 fore levy), and

22 “(ii) an application under—

23 “(I) section 7811 (relating to
24 taxpayer assistance orders),

1 “(II) section 6159 (relating to
2 agreements for payment of tax liabil-
3 ity in installments), or

4 “(III) section 7122 (relating to
5 compromises).

6 “(3) OPPORTUNITY TO WITHDRAW SUBMIS-
7 SION.—If the Secretary provides a person with no-
8 tice that a submission is a specified frivolous sub-
9 mission and such person withdraws such submission
10 within 30 days after such notice, the penalty im-
11 posed under paragraph (1) shall not apply with re-
12 spect to such submission.

13 “(c) LISTING OF FRIVOLOUS POSITIONS.—The Sec-
14 retary shall prescribe (and periodically revise) a list of po-
15 sitions which the Secretary has identified as being frivo-
16 lous for purposes of this subsection. The Secretary shall
17 not include in such list any position that the Secretary
18 determines meets the requirement of section
19 6662(d)(2)(B)(ii)(II).

20 “(d) REDUCTION OF PENALTY.—The Secretary may
21 reduce the amount of any penalty imposed under this sec-
22 tion if the Secretary determines that such reduction would
23 promote compliance with and administration of the Fed-
24 eral tax laws.

1 “(e) PENALTIES IN ADDITION TO OTHER PEN-
 2 ALTIES.—The penalties imposed by this section shall be
 3 in addition to any other penalty provided by law.”.

4 (b) CLERICAL AMENDMENT.—The table of sections
 5 for part I of subchapter B of chapter 68 is amended by
 6 striking the item relating to section 6702 and inserting
 7 the following new item:

“Sec. 6702. Frivolous tax submissions.”.

8 (c) EFFECTIVE DATE.—The amendments made by
 9 this section shall apply to submissions made and issues
 10 raised after the date on which the Secretary first pre-
 11 scribes a list under section 6702(c) of the Internal Rev-
 12 enue Code of 1986, as amended by subsection (a).

13 **SEC. 108. CLARIFICATION OF APPLICATION OF FEDERAL**
 14 **TAX DEPOSIT PENALTY.**

15 Nothing in section 6656 of the Internal Revenue
 16 Code of 1986 shall be construed to permit the percentage
 17 specified in subsection (b)(1)(A)(iii) thereof to apply other
 18 than in a case where the failure is for more than 15 days.

19 **TITLE II—FAIRNESS OF**
 20 **COLLECTION PROCEDURES**

21 **SEC. 201. PARTIAL PAYMENT OF TAX LIABILITY IN IN-**
 22 **STALLMENT AGREEMENTS.**

23 (a) IN GENERAL.—

24 (1) Section 6159(a) (relating to authorization
 25 of agreements) is amended—

1 (A) by striking “satisfy liability for pay-
2 ment of” and inserting “make payment on”,
3 and

4 (B) by inserting “full or partial” after “fa-
5 cilitate”.

6 (2) Section 6159(c) (relating to Secretary re-
7 quired to enter into installment agreements in cer-
8 tain cases) is amended in the matter preceding para-
9 graph (1) by inserting “full” before “payment”.

10 (b) REQUIREMENT TO REVIEW PARTIAL PAYMENT
11 AGREEMENTS EVERY TWO YEARS.—Section 6159 is
12 amended by redesignating subsections (d) and (e) as sub-
13 sections (e) and (f), respectively, and inserting after sub-
14 section (c) the following new subsection:

15 “(d) SECRETARY REQUIRED TO REVIEW INSTALL-
16 MENT AGREEMENTS FOR PARTIAL COLLECTION EVERY
17 TWO YEARS.—In the case of an agreement entered into
18 by the Secretary under subsection (a) for partial collection
19 of a tax liability, the Secretary shall review the agreement
20 at least once every 2 years.”.

21 (c) EFFECTIVE DATE.—The amendments made by
22 this section shall apply to agreements entered into on or
23 after the date of the enactment of this Act.

1 **SEC. 202. EXTENSION OF TIME FOR RETURN OF PROPERTY.**

2 (a) EXTENSION OF TIME FOR RETURN OF PROPERTY
 3 SUBJECT TO LEVY.—Subsection (b) of section 6343 (re-
 4 lating to return of property) is amended by striking “9
 5 months” and inserting “2 years”.

6 (b) PERIOD OF LIMITATION ON SUITS.—Subsection
 7 (c) of section 6532 (relating to suits by persons other than
 8 taxpayers) is amended—

9 (1) in paragraph (1) by striking “9 months”
 10 and inserting “2 years”, and

11 (2) in paragraph (2) by striking “9-month” and
 12 inserting “2-year”.

13 (c) EFFECTIVE DATE.—The amendments made by
 14 this section shall apply to—

15 (1) levies made after the date of the enactment
 16 of this Act, and

17 (2) levies made on or before such date if the 9-
 18 month period has not expired under section 6343(b)
 19 of the Internal Revenue Code of 1986 (without re-
 20 gard to this section) as of such date.

21 **SEC. 203. INDIVIDUALS HELD HARMLESS ON WRONGFUL**
 22 **LEVY, ETC., ON INDIVIDUAL RETIREMENT**
 23 **PLAN.**

24 (a) IN GENERAL.—Section 6343 (relating to author-
 25 ity to release levy and return property) is amended by add-
 26 ing at the end the following new subsection:

1 “(f) INDIVIDUALS HELD HARMLESS ON WRONGFUL
2 LEVY, ETC., ON INDIVIDUAL RETIREMENT PLAN.—

3 “(1) IN GENERAL.—If the Secretary determines
4 that an individual retirement plan has been levied
5 upon in a case to which subsection (b) or (d)(2)(A)
6 applies, an amount equal to the sum of—

7 “(A) the amount of money returned by the
8 Secretary on account of such levy, and

9 “(B) interest paid under subsection (c) on
10 such amount of money,
11 may be deposited into an individual retirement plan
12 (other than an endowment contract) to which a roll-
13 over from the plan levied upon is permitted.

14 “(2) TREATMENT AS ROLLOVER.—The distribu-
15 tion on account of the levy and any deposit under
16 paragraph (1) with respect to such distribution shall
17 be treated for purposes of this title as if such dis-
18 tribution and deposit were part of a rollover de-
19 scribed in section 408(d)(3)(A)(i); except that—

20 “(A) interest paid under subsection (c)
21 shall be treated as part of such distribution and
22 as not includible in gross income,

23 “(B) the 60-day requirement in such sec-
24 tion shall be treated as met if the deposit is
25 made not later than the 60th day after the day

1 on which the individual receives an amount
2 under paragraph (1) from the Secretary, and

3 “(C) such deposit shall not be taken into
4 account under section 408(d)(3)(B).

5 “(3) REFUND, ETC., OF INCOME TAX ON
6 LEVY.—If any amount is includible in gross income
7 for a taxable year by reason of a levy referred to in
8 paragraph (1) and any portion of such amount is
9 treated as a rollover under paragraph (2), any tax
10 imposed by chapter 1 on such portion shall not be
11 assessed, and if assessed shall be abated, and if col-
12 lected shall be credited or refunded as an overpay-
13 ment made on the due date for filing the return of
14 tax for such taxable year.

15 “(4) INTEREST.—Notwithstanding subsection
16 (d), interest shall be allowed under subsection (c) in
17 a case in which the Secretary makes a determination
18 described in subsection (d)(2)(A) with respect to a
19 levy upon an individual retirement plan.”.

20 (b) EFFECTIVE DATE.—The amendment made by
21 this section shall apply to amounts paid under subsections
22 (b), (c), and (d)(2)(A) of section 6343 of the Internal Rev-
23 enue Code of 1986 after December 31, 2003.

1 **SEC. 204. SEVEN-DAY THRESHOLD ON TOLLING OF STAT-**
2 **UTE OF LIMITATIONS DURING TAX REVIEW.**

3 (a) IN GENERAL.—Section 7811(d)(1) (relating to
4 suspension of running of period of limitation) is amended
5 by inserting after “application,” the following: “but only
6 if the date of such decision is at least 7 days after the
7 date of the taxpayer’s application”.

8 (b) EFFECTIVE DATE.—The amendment made by
9 this section shall apply to applications filed after the date
10 of the enactment of this Act.

11 **SEC. 205. STUDY OF LIENS AND LEVIES.**

12 The Secretary of the Treasury, or the Secretary’s del-
13 egate, shall conduct a study of the practices of the Inter-
14 nal Revenue Service concerning liens and levies. The study
15 shall examine—

16 (1) the declining use of liens and levies by the
17 Internal Revenue Service, and

18 (2) the practicality of recording liens and lev-
19 ying against property in cases in which the cost of
20 such actions exceeds the amount to be realized from
21 such property.

22 Not later than 1 year after the date of the enactment of
23 this Act, the Secretary shall submit such study to the
24 Committee on Ways and Means of the House of Rep-
25 resentatives and the Committee on Finance of the Senate.

1 **TITLE III—TAX ADMINISTRATION**
2 **REFORMS**

3 **SEC. 301. REVISIONS RELATING TO TERMINATION OF EM-**
4 **PLOYMENT OF INTERNAL REVENUE SERVICE**
5 **EMPLOYEES FOR MISCONDUCT.**

6 (a) IN GENERAL.—Subchapter A of chapter 80 (re-
7 lating to application of internal revenue laws) is amended
8 by inserting after section 7804 the following new section:

9 **“SEC. 7804A. DISCIPLINARY ACTIONS FOR MISCONDUCT.**

10 “(a) DISCIPLINARY ACTIONS.—

11 “(1) IN GENERAL.—Subject to subsection (c),
12 the Commissioner shall take an action in accordance
13 with the guidelines established under paragraph (2)
14 against any employee of the Internal Revenue Serv-
15 ice if there is a final administrative or judicial deter-
16 mination that such employee committed any act or
17 omission described under subsection (b) in the per-
18 formance of the employee’s official duties or where
19 a nexus to the employee’s position exists.

20 “(2) GUIDELINES.—The Commissioner shall
21 issue guidelines for determining the appropriate level
22 of discipline, up to and including termination of em-
23 ployment, for committing any act or omission de-
24 scribed under subsection (b).

1 “(b) ACTS OR OMISSIONS.—The acts or omissions de-
2 scribed under this subsection are—

3 “(1) willful failure to obtain the required ap-
4 proval signatures on documents authorizing the sei-
5 zure of a taxpayer’s home, personal belongings, or
6 business assets;

7 “(2) willfully providing a false statement under
8 oath with respect to a material matter involving a
9 taxpayer or taxpayer representative;

10 “(3) with respect to a taxpayer or taxpayer rep-
11 resentative, the willful violation of—

12 “(A) any right under the Constitution of
13 the United States;

14 “(B) any civil right established under—

15 “(i) title VI or VII of the Civil Rights
16 Act of 1964;

17 “(ii) title IX of the Education Amend-
18 ments of 1972;

19 “(iii) the Age Discrimination in Em-
20 ployment Act of 1967;

21 “(iv) the Age Discrimination Act of
22 1975;

23 “(v) section 501 or 504 of the Reha-
24 bilitation Act of 1973; or

1 “(vi) title I of the Americans with
2 Disabilities Act of 1990; or

3 “(C) the Internal Revenue Service policy
4 on unauthorized inspection of returns or return
5 information;

6 “(4) willfully falsifying or destroying documents
7 to conceal mistakes made by any employee with re-
8 spect to a matter involving a taxpayer or taxpayer
9 representative;

10 “(5) assault or battery on a taxpayer or tax-
11 payer representative, but only if there is a criminal
12 conviction, or a final adverse judgment by a court in
13 a civil case, with respect to the assault or battery;

14 “(6) willful violations of this title, Department
15 of the Treasury regulations, or policies of the Inter-
16 nal Revenue Service (including the Internal Revenue
17 Manual) for the purpose of retaliating against, or
18 harassing, a taxpayer or taxpayer representative;

19 “(7) willful misuse of the provisions of section
20 6103 for the purpose of concealing information from
21 a congressional inquiry;

22 “(8) willful failure to file any return of tax re-
23 quired under this title on or before the date pre-
24 scribed therefor (including any extensions) when a

1 tax is due and owing, unless such failure is due to
2 reasonable cause and not due to willful neglect;

3 “(9) willful understatement of Federal tax li-
4 ability, unless such understatement is due to reason-
5 able cause and not due to willful neglect; and

6 “(10) threatening to audit a taxpayer, or to
7 take other action under this title, for the purpose of
8 extracting personal gain or benefit.

9 “(c) DETERMINATIONS OF COMMISSIONER.—

10 “(1) IN GENERAL.—The Commissioner may
11 take a personnel action other than a disciplinary ac-
12 tion provided for in the guidelines under subsection
13 (a)(2) for an act or omission described under sub-
14 section (b).

15 “(2) DISCRETION.—The exercise of authority
16 under paragraph (1) shall be at the sole discretion
17 of the Commissioner and may not be delegated to
18 any other officer. The Commissioner, in his sole dis-
19 cretion, may establish a procedure to determine if an
20 individual should be referred to the Commissioner
21 for a determination by the Commissioner under
22 paragraph (1).

23 “(3) NO APPEAL.—Notwithstanding any other
24 provision of law, any determination of the Commis-
25 sioner under this subsection may not be reviewed in

1 any administrative or judicial proceeding. A finding
2 that an act or omission described under subsection
3 (b) occurred may be reviewed.

4 “(d) DEFINITION.—For the purposes of the provi-
5 sions described in clauses (i), (ii), and (iv) of subsection
6 (b)(3)(B), references to a program or activity regarding
7 Federal financial assistance or an education program or
8 activity receiving Federal financial assistance shall include
9 any program or activity conducted by the Internal Rev-
10 enue Service for a taxpayer.

11 “(e) ANNUAL REPORT.—The Commissioner shall
12 submit to Congress annually a report on disciplinary ac-
13 tions under this section.”.

14 (b) CLERICAL AMENDMENT.—The table of sections
15 for chapter 80 is amended by inserting after the item re-
16 lating to section 7804 the following new item:

“Sec. 7804A. Disciplinary actions for misconduct.”.

17 (c) REPEAL OF SUPERSEDED SECTION.—Section
18 1203 of the Internal Revenue Service Restructuring and
19 Reform Act of 1998 (Public Law 105 09206; 112 Stat.
20 720) is repealed.

21 (d) EFFECTIVE DATE.—The amendments made by
22 this section shall take effect on the date of the enactment
23 of this Act.

1 **SEC. 302. CONFIRMATION OF AUTHORITY OF TAX COURT**
2 **TO APPLY DOCTRINE OF EQUITABLE**
3 **RECOUPMENT.**

4 (a) CONFIRMATION OF AUTHORITY OF TAX COURT
5 TO APPLY DOCTRINE OF EQUITABLE RECOUPMENT.—
6 Subsection (b) of section 6214 (relating to jurisdiction
7 over other years and quarters) is amended by adding at
8 the end the following new sentence: “Notwithstanding the
9 preceding sentence, the Tax Court may apply the doctrine
10 of equitable recoupment to the same extent that it is avail-
11 able in civil tax cases before the district courts of the
12 United States and the United States Court of Federal
13 Claims.”.

14 (b) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to any action or proceeding in the
16 Tax Court with respect to which a decision has not become
17 final (as determined under section 7481 of the Internal
18 Revenue Code of 1986) as of the date of the enactment
19 of this Act.

20 **SEC. 303. JURISDICTION OF TAX COURT OVER COLLECTION**
21 **DUE PROCESS CASES.**

22 (a) IN GENERAL.—Section 6330(d)(1) (relating to
23 judicial review of determination) is amended to read as
24 follows:

25 “(1) JUDICIAL REVIEW OF DETERMINATION.—
26 The person may, within 30 days of a determination

1 under this section, appeal such determination to the
2 Tax Court (and the Tax Court shall have jurisdic-
3 tion with respect to such matter).”.

4 (b) EFFECTIVE DATE.—The amendment made by
5 subsection (a) shall apply to judicial appeals filed after
6 the date of the enactment of this Act.

7 **SEC. 304. OFFICE OF CHIEF COUNSEL REVIEW OF OFFERS**
8 **IN COMPROMISE.**

9 (a) IN GENERAL.—Section 7122(b) (relating to
10 record) is amended by striking “Whenever a compromise”
11 and all that follows through “his delegate” and inserting
12 “If the Secretary determines that an opinion of the Gen-
13 eral Counsel for the Department of the Treasury, or the
14 Counsel’s delegate, is required with respect to a com-
15 promise, there shall be placed on file in the office of the
16 Secretary such opinion”.

17 (b) CONFORMING AMENDMENTS.—Section 7122(b) is
18 amended by striking the second and third sentences.

19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to offers-in-compromise submitted
21 or pending on or after the date of the enactment of this
22 Act.

1 **SEC. 305. 15-DAY DELAY IN DUE DATE FOR ELECTRONI-**
2 **CALLY FILED INDIVIDUAL INCOME TAX RE-**
3 **TURNS.**

4 (a) IN GENERAL.—Section 6072 (relating to time for
5 filing income tax returns) is amended by adding at the
6 end the following new subsection:

7 “(f) ELECTRONICALLY FILED RETURNS OF INDIVID-
8 UALS.—

9 “(1) IN GENERAL.—Returns of an individual
10 under section 6012 or 6013 (other than an indi-
11 vidual to whom subsection (c) applies) which are
12 filed electronically—

13 “(A) in the case of returns filed on the
14 basis of a calendar year, shall be filed on or be-
15 fore the 30th day of April following the close of
16 the calendar year, and

17 “(B) in the case of returns filed on the
18 basis of a fiscal year, shall be filed on or before
19 the last day of the 4th month following the
20 close of the fiscal year.

21 “(2) ELECTRONIC FILING.—Paragraph (1)
22 shall not apply to any return unless—

23 “(A) such return is accepted by the Sec-
24 retary, and

1 “(B) the balance due (if any) shown on
2 such return is paid electronically in a manner
3 prescribed by the Secretary.

4 “(3) SPECIAL RULES.—

5 “(A) ESTIMATED TAX.—If—

6 “(i) paragraph (1) applies to an indi-
7 vidual for any taxable year, and

8 “(ii) there is an overpayment of tax
9 shown on the return for such year which
10 the individual allows against the individ-
11 ual’s obligation under section 6641,

12 then, with respect to the amount so allowed,
13 any reference in section 6641 to the April 15
14 following such taxable year shall be treated as
15 a reference to April 30.

16 “(B) REFERENCES TO DUE DATE.—Para-
17 graph (1) shall apply solely for purposes of de-
18 termining the due date for the individual’s obli-
19 gation to file and pay tax and, except as other-
20 wise provided by the Secretary, shall be treated
21 as an extension of the due date for any other
22 purpose under this title.”.

23 (b) EFFECTIVE DATE.—The amendment made by
24 this section shall apply to returns filed with respect to tax-
25 able years beginning after December 31, 2002.

1 **SEC. 306. ACCESS OF NATIONAL TAXPAYER ADVOCATE TO**
 2 **INDEPENDENT LEGAL COUNSEL.**

3 Clause (i) of section 7803(c)(2)(D) (relating to per-
 4 sonnel actions) is amended by striking “and” at the end
 5 of subclause (I), by striking the period at the end of sub-
 6 clause (II) and inserting “, and”, and by adding at the
 7 end the following new subclause:

8 “(III) appoint a counsel in the
 9 Office of the Taxpayer Advocate to re-
 10 port solely to the National Taxpayer
 11 Advocate.”.

12 **SEC. 307. PAYMENT OF MOTOR FUEL EXCISE TAX REFUNDS**
 13 **BY DIRECT DEPOSIT.**

14 (a) IN GENERAL.—Subchapter II of chapter 33 of
 15 title 31, United States Code, is amended by adding at the
 16 end the following new section:

17 “ **1A3337. Payment of motor fuel excise tax refunds**
 18 **by direct deposit**

19 “The Secretary of the Treasury shall make payments
 20 under sections 6420, 6421, and 6427 of the Internal Rev-
 21 enue Code of 1986 by electronic funds transfer (as defined
 22 in section 3332(j)(1)) if the person who is entitled to the
 23 payment—

24 “(1) elects to receive the payment by electronic
 25 funds transfer; and

1 “(2) satisfies the requirements of section
2 3332(g) with respect to such payment at such time
3 and in such manner as the Secretary may require.”.

4 (b) CLERICAL AMENDMENT.—The table of sections
5 for subchapter II of chapter 33 of title 31, United States
6 Code, is amended by adding at the end the following new
7 item:

“3337. Payment of motor fuel excise tax refunds by direct deposit.”.

8 **SEC. 308. FAMILY BUSINESS TAX SIMPLIFICATION.**

9 (a) IN GENERAL.—Section 761 (defining terms for
10 purposes of partnerships) is amended by redesignating
11 subsection (f) as subsection (g) and by inserting after sub-
12 section (e) the following new subsection:

13 “(f) QUALIFIED JOINT VENTURE.—

14 “(1) IN GENERAL.—In the case of a qualified
15 joint venture conducted by a husband and wife who
16 file a joint return for the taxable year, for purposes
17 of this title—

18 “(A) such joint venture shall not be treat-
19 ed as a partnership,

20 “(B) all items of income, gain, loss, deduc-
21 tion, and credit shall be divided between the
22 spouses in accordance with their respective in-
23 terests in the venture, and

24 “(C) each spouse shall take into account
25 such spouse’s respective share of such items as

1 if they were attributable to a trade or business
 2 conducted by such spouse as a sole proprietor.

3 ×

4 “(2) QUALIFIED JOINT VENTURE.—For pur-
 5 poses of paragraph (1), the term ‘qualified joint ven-
 6 ture’ means any joint venture involving the conduct
 7 of a trade or business if—

8 “(A) the only members of such joint ven-
 9 ture are a husband and wife,

10 “(B) both spouses materially participate
 11 (within the meaning of section 469(h) without
 12 regard to paragraph (5) thereof) in such trade
 13 or business, and

14 “(C) both spouses elect the application of
 15 this subsection.”.

16 (b) NET EARNINGS FROM SELF-EMPLOYMENT.—

17 (1) Subsection (a) of section 1402 (defining net
 18 earnings from self-employment) is amended by strik-
 19 ing “and” at the end of paragraph (14), by striking
 20 the period at the end of paragraph (15) and insert-
 21 ing “; and”, and by inserting after paragraph (15)
 22 the following new paragraph:

23 “(16) notwithstanding the preceding provisions
 24 of this subsection, each spouse’s share of income or
 25 loss from a qualified joint venture shall be taken

1 into account as provided in section 761(f) in deter-
2 mining net earnings from self-employment of such
3 spouse.”.

4 (2) Subsection (a) of section 211 of the Social
5 Security Act (defining net earnings from self-em-
6 ployment) is amended by striking “and” at the end
7 of paragraph (14), by striking the period at the end
8 of paragraph (15) and inserting “; and”, and by in-
9 serting after paragraph (15) the following new para-
10 graph:

11 “(16) Notwithstanding the preceding provisions
12 of this subsection, each spouse’s share of income or
13 loss from a qualified joint venture shall be taken
14 into account as provided in section 761(f) of the In-
15 ternal Revenue Code of 1986 in determining net
16 earnings from self-employment of such spouse.”.

17 (c) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to taxable years beginning after
19 December 31, 2002.

20 **SEC. 309. HEALTH INSURANCE COSTS OF ELIGIBLE INDIVIDUALS.**
21

22 (a) CONSUMER OPTIONS.—Paragraph (2) of section
23 35(e) is amended by inserting at the end the following new
24 subparagraph:

1 “(C) WAIVER BY ELIGIBLE INDIVID-
 2 UALS.—With respect to any month which ends
 3 before January 1, 2006, this paragraph shall
 4 not apply with respect to any eligible individual
 5 and such individual’s qualifying family members
 6 if such eligible individual elects to waive the ap-
 7 plication of this paragraph with respect to such
 8 month.”.

9 (b) EFFECTIVE DATE.—The amendment made by
 10 this section shall apply to months beginning after the date
 11 of the enactment of this Act.

12 **SEC. 310. SUSPENSION OF TAX-EXEMPT STATUS OF TER-**
 13 **RORIST ORGANIZATIONS.**

14 (a) IN GENERAL.—Section 501 (relating to exemp-
 15 tion from tax on corporations, certain trusts, etc.) is
 16 amended by redesignating subsection (p) as subsection (q)
 17 and by inserting after subsection (o) the following new
 18 subsection:

19 “(p) SUSPENSION OF TAX-EXEMPT STATUS OF TER-
 20 RORIST ORGANIZATIONS.—

21 “(1) IN GENERAL.—The exemption from tax
 22 under subsection (a) with respect to any organiza-
 23 tion described in paragraph (2), and the eligibility of
 24 any organization described in paragraph (2) to apply
 25 for recognition of exemption under subsection (a),

1 shall be suspended during the period described in
2 paragraph (3).

3 “(2) TERRORIST ORGANIZATIONS.—An organi-
4 zation is described in this paragraph if such organi-
5 zation is designated or otherwise individually
6 identified—

7 “(A) under section 212(a)(3)(B)(vi)(II) or
8 219 of the Immigration and Nationality Act as
9 a terrorist organization or foreign terrorist or-
10 ganization,

11 “(B) in or pursuant to an Executive order
12 which is related to terrorism and issued under
13 the authority of the International Emergency
14 Economic Powers Act or section 5 of the
15 United Nations Participation Act of 1945 for
16 the purpose of imposing on such organization
17 an economic or other sanction, or

18 “(C) in or pursuant to an Executive order
19 issued under the authority of any Federal law
20 if—

21 “(i) the organization is designated or
22 otherwise individually identified in or pur-
23 suant to such Executive order as sup-
24 porting or engaging in terrorist activity (as
25 defined in section 212(a)(3)(B) of the Im-

1 migration and Nationality Act) or sup-
2 porting terrorism (as defined in section
3 140(d)(2) of the Foreign Relations Author-
4 ization Act, Fiscal Years 1988 and 1989);
5 and

6 “(ii) such Executive order refers to
7 this subsection.

8 “(3) PERIOD OF SUSPENSION.—With respect to
9 any organization described in paragraph (2), the pe-
10 riod of suspension—

11 “(A) begins on the later of—

12 “(i) the date of the first publication of
13 a designation or identification described in
14 paragraph (2) with respect to such organi-
15 zation, or

16 “(ii) the date of the enactment of this
17 subsection, and

18 “(B) ends on the first date that all des-
19 ignations and identifications described in para-
20 graph (2) with respect to such organization are
21 rescinded pursuant to the law or Executive
22 order under which such designation or identi-
23 fication was made.

24 “(4) DENIAL OF DEDUCTION.—No deduction
25 shall be allowed under section 170, 545(b)(2),

1 556(b)(2), 642(c), 2055, 2106(a)(2), or 2522 for
 2 any contribution to an organization described in
 3 paragraph (2) during the period described in para-
 4 graph (3).

5 “(5) DENIAL OF ADMINISTRATIVE OR JUDICIAL
 6 CHALLENGE OF SUSPENSION OR DENIAL OF DEDUC-
 7 TION.—Notwithstanding section 7428 or any other
 8 provision of law, no organization or other person
 9 may challenge a suspension under paragraph (1), a
 10 designation or identification described in paragraph
 11 (2), the period of suspension described in paragraph
 12 (3), or a denial of a deduction under paragraph (4)
 13 in any administrative or judicial proceeding relating
 14 to the Federal tax liability of such organization or
 15 other person.

16 “(6) ERRONEOUS DESIGNATION.—

17 “(A) IN GENERAL.—If—

18 “(i) the tax exemption of any organi-
 19 zation described in paragraph (2) is sus-
 20 pended under paragraph (1),

21 “(ii) each designation and identifica-
 22 tion described in paragraph (2) which has
 23 been made with respect to such organiza-
 24 tion is determined to be erroneous pursu-
 25 ant to the law or Executive order under

1 which such designation or identification
2 was made, and

3 “(iii) the erroneous designations and
4 identifications result in an overpayment of
5 income tax for any taxable year by such
6 organization,

7 credit or refund (with interest) with respect to
8 such overpayment shall be made.

9 “(B) WAIVER OF LIMITATIONS.—If the
10 credit or refund of any overpayment of tax de-
11 scribed in subparagraph (A)(iii) is prevented at
12 any time by the operation of any law or rule of
13 law (including *res judicata*), such credit or re-
14 fund may nevertheless be allowed or made if the
15 claim therefor is filed before the close of the 1-
16 year period beginning on the date of the last
17 determination described in subparagraph
18 (A)(ii).

19 “(7) NOTICE OF SUSPENSIONS.—If the tax ex-
20 emption of any organization is suspended under this
21 subsection, the Internal Revenue Service shall up-
22 date the listings of tax-exempt organizations and
23 shall publish appropriate notice to taxpayers of such
24 suspension and of the fact that contributions to such

1 organization are not deductible during the period of
 2 such suspension.”.

3 (b) EFFECTIVE DATE.—The amendments made by
 4 this section shall apply to designations made before, on,
 5 or after the date of the enactment of this Act.

6 **TITLE IV—CONFIDENTIALITY** 7 **AND DISCLOSURE**

8 **SEC. 401. COLLECTION ACTIVITIES WITH RESPECT TO** 9 **JOINT RETURN DISCLOSABLE TO EITHER** 10 **SPOUSE BASED ON ORAL REQUEST.**

11 (a) IN GENERAL.—Paragraph (8) of section 6103(e)
 12 (relating to disclosure of collection activities with respect
 13 to joint return) is amended by striking “in writing” the
 14 first place it appears.

15 (b) EFFECTIVE DATE.—The amendment made by
 16 this section shall apply to requests made after the date
 17 of the enactment of this Act.

18 **SEC. 402. TAXPAYER REPRESENTATIVES NOT SUBJECT TO** 19 **EXAMINATION ON SOLE BASIS OF REPRESENTATION OF TAXPAYERS.** 20

21 (a) IN GENERAL.—Paragraph (1) of section 6103(h)
 22 (relating to disclosure to certain Federal officers and em-
 23 ployees for purposes of tax administration, etc.) is
 24 amended—

1 (1) by striking “Returns” and inserting the fol-
 2 lowing:

3 “(A) IN GENERAL.—Returns”, and

4 (2) by adding at the end the following new sub-
 5 paragraph:

6 “(B) TAXPAYER REPRESENTATIVES.—Not-
 7 withstanding subparagraph (A), the return of
 8 the representative of a taxpayer whose return is
 9 being examined by an officer or employee of the
 10 Department of the Treasury shall not be open
 11 to inspection by such officer or employee on the
 12 sole basis of the representative’s relationship to
 13 the taxpayer unless a supervisor of such officer
 14 or employee has approved the inspection of the
 15 return of such representative on a basis other
 16 than by reason of such relationship.”.

17 (b) EFFECTIVE DATE.—The amendment made by
 18 this section shall take effect on the date which is 180 days
 19 after the date of the enactment of this Act.

20 **SEC. 403. DISCLOSURE IN JUDICIAL OR ADMINISTRATIVE**
 21 **TAX PROCEEDINGS OF RETURN AND RETURN**
 22 **INFORMATION OF PERSONS WHO ARE NOT**
 23 **PARTY TO SUCH PROCEEDINGS.**

24 (a) IN GENERAL.—Paragraph (4) of section 6103(h)
 25 (relating to disclosure to certain Federal officers and em-

1 ployees for purposes of tax administration, etc.) is amend-
2 ed by adding at the end the following new subparagraph:

3 “(B) DISCLOSURE IN JUDICIAL OR ADMIN-
4 ISTRATIVE TAX PROCEEDINGS OF RETURN AND
5 RETURN INFORMATION OF PERSONS NOT PARTY
6 TO SUCH PROCEEDINGS.—

7 “(i) NOTICE.—Return or return infor-
8 mation of any person who is not a party to
9 a judicial or administrative proceeding de-
10 scribed in this paragraph shall not be dis-
11 closed under clause (ii) or (iii) of subpara-
12 graph (A) until after the Secretary makes
13 a reasonable effort to give notice to such
14 person and an opportunity for such person
15 to request the deletion of matter from such
16 return or return information, including any
17 of the items referred to in paragraphs (1)
18 through (7) of section 6110(c). Such notice
19 shall include a statement of the issue or
20 issues the resolution of which is the reason
21 such return or return information is
22 sought. In the case of S corporations, part-
23 nerships, estates, and trusts, such notice
24 shall be made at the entity level.

1 “(ii) DISCLOSURE LIMITED TO PERTI-
2 NENT PORTION.—The only portion of a re-
3 turn or return information described in
4 clause (i) which may be disclosed under
5 subparagraph (A) is that portion of such
6 return or return information that directly
7 relates to the resolution of an issue in such
8 proceeding.

9 “(iii) EXCEPTIONS.—Clause (i) shall
10 not apply—

11 “(I) to any civil action under sec-
12 tion 7407, 7408, or 7409,

13 “(II) to any ex parte proceeding
14 for obtaining a search warrant, order
15 for entry on premises or safe deposit
16 boxes, or similar ex parte proceeding,

17 “(III) to disclosure of third party
18 return information by indictment or
19 criminal information, or

20 “(IV) if the Attorney General or
21 the Attorney General’s delegate deter-
22 mines that the application of such
23 clause would seriously impair a crimi-
24 nal tax investigation or proceeding.”.

1 (b) CONFORMING AMENDMENTS.—Paragraph (4) of
 2 section 6103(h) is amended by—

3 (1) by striking “PROCEEDINGS.—A return” and
 4 inserting “PROCEEDINGS.—

5 “(A) IN GENERAL.—Except as provided in
 6 subparagraph (B), a return”;

7 (2) by redesignating subparagraphs (A), (B),
 8 (C), and (D) as clauses (i), (ii), (iii), and (iv), re-
 9 spectively; and

10 (3) in the matter following clause (iv) (as so re-
 11 designated), by striking “subparagraph (A), (B), or
 12 (C)” and inserting “clause (i), (ii), or (iii)” and by
 13 moving such matter 2 ems to the right.

14 (c) EFFECTIVE DATE.—The amendments made by
 15 this section shall apply to proceedings commenced after
 16 the date of the enactment of this Act.

17 **SEC. 404. PROHIBITION OF DISCLOSURE OF TAXPAYER**
 18 **IDENTIFICATION INFORMATION WITH RE-**
 19 **SPECT TO DISCLOSURE OF ACCEPTED OF-**
 20 **FERS-IN-COMPROMISE.**

21 (a) GENERAL.—Paragraph (1) of section 6103(k)
 22 (relating to disclosure of certain returns and return infor-
 23 mation for tax administrative purposes) is amended by in-
 24 serting “(other than the taxpayer’s address and TIN)”
 25 after “Return information”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to disclosures made after the date
3 of the enactment of this Act.

4 **SEC. 405. COMPLIANCE BY CONTRACTORS WITH CONFIDEN-**
5 **TIALITY SAFEGUARDS.**

6 (a) IN GENERAL.—Section 6103(p) (relating to State
7 law requirements) is amended by adding at the end the
8 following new paragraph:

9 “(9) DISCLOSURE TO CONTRACTORS AND
10 OTHER AGENTS.—Notwithstanding any other provi-
11 sion of this section, no return or return information
12 shall be disclosed to any contractor or other agent
13 of a Federal, State, or local agency unless such
14 agency, to the satisfaction of the Secretary—

15 “(A) has requirements in effect which re-
16 quire each such contractor or other agent which
17 would have access to returns or return informa-
18 tion to provide safeguards (within the meaning
19 of paragraph (4)) to protect the confidentiality
20 of such returns or return information,

21 “(B) agrees to conduct an annual, on-site
22 review (mid-point review in the case of con-
23 tracts of less than 1 year in duration) of each
24 such contractor or other agent to determine
25 compliance with such requirements,

1 “(C) submits the findings of the most re-
2 cent review conducted under subparagraph (B)
3 to the Secretary as part of the report required
4 by paragraph (4)(E), and

5 “(D) certifies to the Secretary for the most
6 recent annual period that each such contractor
7 or other agent is in compliance with all such re-
8 quirements.

9 The certification required by subparagraph (D) shall
10 include the name and address of each contractor and
11 other agent, a description of the contract of the con-
12 tractor or other agent with the agency, and the du-
13 ration of such contract.”.

14 (b) CONFORMING AMENDMENT.—Subparagraph (B)
15 of section 6103(p)(8) is amended by inserting “or para-
16 graph (9)” after “subparagraph (A)”.

17 (c) EFFECTIVE DATE.—

18 (1) IN GENERAL.—The amendments made by
19 this section shall apply to disclosures made after De-
20 cember 31, 2003.

21 (2) CERTIFICATIONS.—The first certification
22 under section 6103(p)(9)(D) of the Internal Revenue
23 Code of 1986, as added by subsection (a), shall be
24 made with respect to calendar year 2004.

1 **SEC. 406. HIGHER STANDARDS FOR REQUESTS FOR AND**
2 **CONSENTS TO DISCLOSURE.**

3 (a) IN GENERAL.—Subsection (c) of section 6103
4 (relating to disclosure of returns and return information
5 to designee of taxpayer) is amended by adding at the end
6 the following new paragraphs:

7 “(2) REQUIREMENTS FOR VALID REQUESTS
8 AND CONSENTS.—A request for or consent to disclo-
9 sure under paragraph (1) shall only be valid for pur-
10 poses of this section, sections 7213, 7213A, and
11 7431 if—

12 “(A) at the time of execution, such request
13 or consent designates a recipient of such disclo-
14 sure and is dated, and

15 “(B) at the time such request or consent
16 is submitted to the Secretary, the submitter of
17 such request or consent certifies, under penalty
18 of perjury, that such request or consent com-
19 plied with subparagraph (A).

20 “(3) RESTRICTIONS ON PERSONS OBTAINING
21 INFORMATION.—Any person shall, as a condition for
22 receiving return or return information under para-
23 graph (1)—

24 “(A) ensure that such return and return
25 information is kept confidential,

1 “(B) use such return and return informa-
2 tion only for the purpose for which it was re-
3 quested, and

4 “(C) not disclose such return and return
5 information except to accomplish the purpose
6 for which it was requested, unless a separate
7 consent from the taxpayer is obtained.

8 “(4) REQUIREMENTS FOR FORM PRESCRIBED
9 BY SECRETARY.—For purposes of this subsection,
10 the Secretary shall prescribe a form for requests and
11 consents which shall—

12 “(A) contain a warning, prominently dis-
13 played, informing the taxpayer that the form
14 should not be signed unless it is completed,

15 “(B) state that if the taxpayer believes
16 there is an attempt to coerce him to sign an in-
17 complete or blank form, the taxpayer should re-
18 port the matter to the Treasury Inspector Gen-
19 eral for Tax Administration, and

20 “(C) contain the address and telephone
21 number of the Treasury Inspector General for
22 Tax Administration.”.

23 (b) REPORT.—Not later than 18 months after the
24 date of the enactment of this Act, the Treasury Inspector
25 General for Tax Administration shall submit a report to

1 the Congress on compliance with the designation and cer-
 2 tification requirements applicable to requests for or con-
 3 sent to disclosure of returns and return information under
 4 section 6103(c) of the Internal Revenue Code of 1986, as
 5 amended by subsection (a). Such report shall—

6 (1) evaluate (on the basis of random sampling)
 7 whether—

8 (A) the amendment made by subsection (a)
 9 is achieving the purposes of this section;

10 (B) requesters and submitters for such dis-
 11 closure are continuing to evade the purposes of
 12 this section and, if so, how; and

13 (C) the sanctions for violations of such re-
 14 quirements are adequate; and

15 (2) include such recommendations that the
 16 Treasury Inspector General for Tax Administration
 17 considers necessary or appropriate to better achieve
 18 the purposes of this section.

19 (c) CONFORMING AMENDMENTS.—

20 (1) Section 6103(c) is amended by striking
 21 “TAXPAYER.—The Secretary” and inserting “TAX-
 22 PAYER.—

23 “(1) IN GENERAL.—The Secretary”.

1 (2) Section 7213(a)(1) is amended by striking
 2 “section 6103(n)” and inserting “subsections (c)
 3 and (n) of section 6103”.

4 (3) Section 7213A(a)(1)(B) is amended by
 5 striking “subsection (l)(18) or (n) of section 6103”
 6 and inserting “subsection (c), (l)(18), or (n) of sec-
 7 tion 6103”.

8 (d) EFFECTIVE DATE.—The amendments made by
 9 this section shall apply to requests and consents made
 10 after 3 months after the date of the enactment of this
 11 Act.

12 **SEC. 407. NOTICE TO TAXPAYER CONCERNING ADMINIS-**
 13 **TRATIVE DETERMINATION OF BROWSING; AN-**
 14 **NUAL REPORT.**

15 (a) NOTICE TO TAXPAYER.—Subsection (e) of section
 16 7431 (relating to notification of unlawful inspection and
 17 disclosure) is amended by adding at the end the following:
 18 “The Secretary shall also notify such taxpayer if the
 19 Treasury Inspector General for Tax Administration sub-
 20 stantiates that such taxpayer’s return or return informa-
 21 tion was inspected or disclosed in violation of any of the
 22 provisions specified in paragraph (1), (2), or (3).”.

23 (b) REPORTS.—Subsection (p) of section 6103 (relat-
 24 ing to procedure and recordkeeping), as amended by sec-

tion 405, is further amended by adding at the end the following new paragraph:

“(10) REPORT ON UNAUTHORIZED DISCLOSURE AND INSPECTION.—As part of the report required by paragraph (3)(C) for each calendar year, the Secretary shall furnish information regarding the unauthorized disclosure and inspection of returns and return information, including the number, status, and results of—

“(A) administrative investigations,

“(B) civil lawsuits brought under section 7431 (including the amounts for which such lawsuits were settled and the amounts of damages awarded), and

“(C) criminal prosecutions.”.

(c) EFFECTIVE DATE.—

(1) NOTICE.—The amendment made by subsection (a) shall apply to determinations made after the date of the enactment of this Act.

(2) REPORTS.—The amendment made by subsection (b) shall apply to calendar years ending after the date of the enactment of this Act.

1 **SEC. 408. EXPANDED DISCLOSURE IN EMERGENCY CIR-**
2 **CUMSTANCES.**

3 (a) IN GENERAL.—Section 6103(i)(3)(B) (relating to
4 danger of death or physical injury) is amended by striking
5 “or State” and inserting “, State, or local”.

6 (b) EFFECTIVE DATE.—The amendment made by
7 this section shall take effect on the date of the enactment
8 of this Act.

9 **SEC. 409. DISCLOSURE OF TAXPAYER IDENTITY FOR TAX**
10 **REFUND PURPOSES.**

11 (a) IN GENERAL.—Paragraph (1) of section 6103(m)
12 (relating to disclosure of taxpayer identity information) is
13 amended by striking “and other media” and by inserting
14 “, other media, and through any other means of mass
15 communication,”.

16 (b) EFFECTIVE DATE.—The amendments made by
17 this section shall take effect on the date of the enactment
18 of this Act.

19 **SEC. 410. DISCLOSURE TO STATE OFFICIALS OF PROPOSED**
20 **ACTIONS RELATED TO SECTION 501(c)(3) OR-**
21 **GANIZATIONS.**

22 (a) IN GENERAL.—Subsection (c) of section 6104 is
23 amended by striking paragraph (2) and inserting the fol-
24 lowing new paragraphs:

25 “(2) DISCLOSURE OF PROPOSED ACTIONS.—

1 “(A) SPECIFIC NOTIFICATIONS.—In the
2 case of an organization to which paragraph (1)
3 applies, the Secretary may disclose to the ap-
4 propriate State officer—

5 “(i) a notice of proposed refusal to
6 recognize such organization as an organi-
7 zation described in section 501(c)(3) or a
8 notice of proposed revocation of such orga-
9 nization’s recognition as an organization
10 exempt from taxation,

11 “(ii) the issuance of a letter of pro-
12 posed deficiency of tax imposed under sec-
13 tion 507 or chapter 41 or 42, and

14 “(iii) the names, addresses, and tax-
15 payer identification numbers of organiza-
16 tions that have applied for recognition as
17 organizations described in section
18 501(c)(3).

19 “(B) ADDITIONAL DISCLOSURES.—Returns
20 and return information of organizations with
21 respect to which information is disclosed under
22 subparagraph (A) may be made available for in-
23 spection by or disclosed to an appropriate State
24 officer.

1 “(C) PROCEDURES FOR DISCLOSURE.—In-
2 formation may be inspected or disclosed under
3 subparagraph (A) or (B) only—

4 “(i) upon written request by an ap-
5 propriate State officer, and

6 “(ii) for the purpose of, and only to
7 the extent necessary in, the administration
8 of State laws regulating such organiza-
9 tions.

10 Such information may only be inspected by or
11 disclosed to a person other than the appropriate
12 State officer if such person is an officer or em-
13 ployee of the State and is designated by the ap-
14 propriate State officer to receive the returns or
15 return information under this paragraph on be-
16 half of the appropriate State officer.

17 “(D) DISCLOSURES OTHER THAN BY RE-
18 QUEST.—The Secretary may make available for
19 inspection or disclose returns and return infor-
20 mation of an organization to which paragraph
21 (1) applies to an appropriate State officer of
22 any State if the Secretary determines that such
23 inspection or disclosure may facilitate the reso-
24 lution of State or Federal issues relating to the
25 tax-exempt status of such organization.

1 “(3) USE IN ADMINISTRATIVE AND JUDICIAL
2 CIVIL PROCEEDINGS.—Returns and return informa-
3 tion disclosed pursuant to this subsection may be
4 disclosed in administrative and judicial civil pro-
5 ceedings pertaining to the enforcement of State laws
6 regulating such organizations in a manner pre-
7 scribed by the Secretary similar to that for tax ad-
8 ministration proceedings under section 6103(h)(4).

9 “(4) NO DISCLOSURE IF IMPAIRMENT.—Re-
10 turns and return information shall not be disclosed
11 under this subsection, or in any proceeding described
12 in paragraph (3), to the extent that the Secretary
13 determines that such disclosure would seriously im-
14 pair Federal tax administration.

15 “(5) DEFINITIONS.—For purposes of this
16 subsection—

17 “(A) RETURN AND RETURN INFORMA-
18 TION.—The terms ‘return’ and ‘return informa-
19 tion’ have the respective meanings given to such
20 terms by section 6103(b).

21 “(B) APPROPRIATE STATE OFFICER.—The
22 term ‘appropriate State officer’ means—

23 “(i) the State attorney general, or

1 “(ii) any other State official charged
2 with overseeing organizations of the type
3 described in section 501(c)(3).”.

4 (b) CONFORMING AMENDMENTS.—

5 (1) Subparagraph (A) of section 6103(p)(3) is
6 amended by inserting “and section 6104(c)” after
7 “section” in the first sentence.

8 (2) Paragraph (4) of section 6103(p) is
9 amended—

10 (A) in the matter preceding subparagraph
11 (A), by inserting “, or any appropriate State of-
12 ficer (as defined in section 6104(c)),” before
13 “or any other person”,

14 (B) in subparagraph (F)(i), by inserting
15 “or any appropriate State officer (as defined in
16 section 6104(c)),” before “or any other per-
17 son”, and

18 (C) in the matter following subparagraph
19 (F), by inserting “, an appropriate State officer
20 (as defined in section 6104(c)),” after “includ-
21 ing an agency” each place it appears.

22 (3) Paragraph (2) of section 7213(a) is amend-
23 ed by inserting “or under section 6104(c)” after
24 “6103”.

1 (4) Paragraph (2) of section 7213A(a) is
2 amended by inserting “or 6104(c)” after “6103”.

3 (5) Paragraph (2) of section 7431(a) is amend-
4 ed by inserting “(including any disclosure in viola-
5 tion of section 6104(c))” after “6103”.

6 (c) EFFECTIVE DATE.—The amendments made by
7 this section shall take effect on the date of the enactment
8 of this Act but shall not apply to requests made before
9 such date.

10 **SEC. 411. CONFIDENTIALITY OF TAXPAYER COMMUNICA-**
11 **TIONS WITH THE OFFICE OF THE TAXPAYER**
12 **ADVOCATE.**

13 (a) IN GENERAL.—Subsection (c) of section 7803 is
14 amended by adding at the end the following new para-
15 graph:

16 “(5) CONFIDENTIALITY OF TAXPAYER INFOR-

17 MATION.—

18 “(A) IN GENERAL.—To the extent author-
19 ized by the National Taxpayer Advocate or pur-
20 suant to guidance issued under subparagraph
21 (B), any officer or employee of the Office of the
22 Taxpayer Advocate may withhold from the In-
23 ternal Revenue Service and the Department of
24 Justice any information provided by, or regard-
25 ing contact with, any taxpayer.

1 “(B) ISSUANCE OF GUIDANCE.—In con-
2 sultation with the Chief Counsel for the Inter-
3 nal Revenue Service and subject to the approval
4 of the Commissioner of Internal Revenue, the
5 National Taxpayer Advocate may issue guid-
6 ance regarding the circumstances (including
7 with respect to litigation) under which, and the
8 persons to whom, employees of the Office of the
9 Taxpayer Advocate shall not disclose informa-
10 tion obtained from a taxpayer. To the extent to
11 which any provision of the Internal Revenue
12 Manual would require greater disclosure by em-
13 ployees of the Office of the Taxpayer Advocate
14 than the disclosure required under such guid-
15 ance, such provision shall not apply.

16 “(C) EMPLOYEE PROTECTION.—Section
17 7214(a)(8) shall not apply to any failure to re-
18 port knowledge or information if—

19 “(i) such failure to report is author-
20 ized under subparagraph (A), and

21 “(ii) such knowledge or information is
22 not of fraud committed by a person
23 against the United States under any rev-
24 enue law.”.

1 (b) CONFORMING AMENDMENT.—Subparagraph (A)
 2 of section 7803(c)(4) is amended by inserting “and” at
 3 the end of clause (ii), by striking “; and” at the end of
 4 clause (iii) and inserting a period, and by striking clause
 5 (iv).

6 **TITLE V—MISCELLANEOUS**

7 **SEC. 501. CLARIFICATION OF DEFINITION OF CHURCH TAX** 8 **INQUIRY.**

9 Subsection (i) of section 7611 (relating to section not
 10 to apply to criminal investigations, etc.) is amended by
 11 striking “or” at the end of paragraph (4), by striking the
 12 period at the end of paragraph (5) and inserting “, or”,
 13 and by inserting after paragraph (5) the following:

14 “(6) information provided by the Secretary re-
 15 lated to the standards for exemption from tax under
 16 this title and the requirements under this title relat-
 17 ing to unrelated business taxable income.”.

18 **SEC. 502. EXPANSION OF DECLARATORY JUDGMENT REM-** 19 **EDY TO TAX-EXEMPT ORGANIZATIONS.**

20 (a) IN GENERAL.—Paragraph (1) of section 7428(a)
 21 (relating to creation of remedy) is amended—

22 (1) in subparagraph (B) by inserting after
 23 “509(a))” the following: “or as a private operating
 24 foundation (as defined in section 4942(j)(3))”; and

1 (2) by amending subparagraph (C) to read as
2 follows:

3 “(C) with respect to the initial qualifica-
4 tion or continuing qualification of an organiza-
5 tion as an organization described in subsection
6 (c) (other than paragraph (3)) or (d) of section
7 501 which is exempt from tax under section
8 501(a), or”.

9 (b) COURT JURISDICTION.—Subsection (a) of section
10 7428 is amended in the material following paragraph (2)
11 by striking “United States Tax Court, the United States
12 Claims Court, or the district court of the United States
13 for the District of Columbia” and inserting the following:
14 “United States Tax Court (in the case of any such deter-
15 mination or failure) or the United States Claims Court
16 or the district court of the United States for the District
17 of Columbia (in the case of a determination or failure with
18 respect to an issue referred to in subparagraph (A) or (B)
19 of paragraph (1)),”.

20 (c) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to pleadings filed with respect to
22 determinations (or requests for determinations) made
23 after the date of the enactment of this Act.

1 **SEC. 503. EMPLOYEE MISCONDUCT REPORT TO INCLUDE**
2 **SUMMARY OF COMPLAINTS BY CATEGORY.**

3 (a) IN GENERAL.—Clause (ii) of section
4 7803(d)(2)(A) is amended by inserting before the semi-
5 colon at the end the following: “, including a summary
6 (by category) of the 10 most common complaints made
7 and the number of such common complaints”.

8 (b) EFFECTIVE DATE.—The amendment made by
9 subsection (a) shall apply with respect to reporting periods
10 ending after the date of the enactment of this Act.

11 **SEC. 504. ANNUAL REPORT ON AWARDS OF COSTS AND**
12 **CERTAIN FEES IN ADMINISTRATIVE AND**
13 **COURT PROCEEDINGS.**

14 Not later than 3 months after the close of each Fed-
15 eral fiscal year after fiscal year 2003, the Treasury In-
16 spector General for Tax Administration shall submit a re-
17 port to Congress which specifies for such year—

18 (1) the number of payments made by the
19 United States pursuant to section 7430 of the Inter-
20 nal Revenue Code of 1986 (relating to awarding of
21 costs and certain fees);

22 (2) the amount of each such payment;

23 (3) an analysis of any administrative issue giv-
24 ing rise to such payments; and

25 (4) changes (if any) which will be implemented
26 as a result of such analysis and other changes (if

1 any) recommended by the Treasury Inspector Gen-
2 eral for Tax Administration as a result of such anal-
3 ysis.

4 **SEC. 505. ANNUAL REPORT ON ABATEMENT OF PENALTIES.**

5 Not later than 6 months after the close of each Fed-
6 eral fiscal year after fiscal year 2003, the Treasury In-
7 spector General for Tax Administration shall submit a re-
8 port to Congress on abatements of penalties under the In-
9 ternal Revenue Code of 1986 during such year, including
10 information on the reasons and criteria for such abate-
11 ments.

12 **SEC. 506. BETTER MEANS OF COMMUNICATING WITH TAX-**
13 **PAYERS.**

14 Not later than 18 months after the date of the enact-
15 ment of this Act, the Treasury Inspector General for Tax
16 Administration shall submit a report to Congress evalu-
17 ating whether technological advances, such as e-mail and
18 facsimile transmission, permit the use of alternative
19 means for the Internal Revenue Service to communicate
20 with taxpayers.

21 **SEC. 507. EXPLANATION OF STATUTE OF LIMITATIONS AND**
22 **CONSEQUENCES OF FAILURE TO FILE.**

23 The Secretary of the Treasury or the Secretary's del-
24 egate shall, as soon as practicable but not later than 180
25 days after the date of the enactment of this Act, revise

1 the statement required by section 6227 of the Omnibus
2 Taxpayer Bill of Rights (Internal Revenue Service Publi-
3 cation No. 1), and any instructions booklet accompanying
4 a general income tax return form for taxable years begin-
5 ning after 2002 (including forms 1040, 1040A, 1040EZ,
6 and any similar or successor forms relating thereto), to
7 provide for an explanation of—

8 (1) the limitations imposed by section 6511 of
9 the Internal Revenue Code of 1986 on credits and
10 refunds; and

11 (2) the consequences under such section 6511
12 of the failure to file a return of tax.

13 **SEC. 508. AMENDMENT TO TREASURY AUCTION REFORMS.**

14 (a) IN GENERAL.—Clause (i) of section 202(c)(4)(B)
15 of the Government Securities Act Amendments of 1993
16 (31 U.S.C. 3121 note) is amended by inserting before the
17 semicolon “(or, if earlier, at the time the Secretary re-
18 leases the minutes of the meeting in accordance with para-
19 graph (2))”.

20 (b) EFFECTIVE DATE.—The amendment made by
21 subsection (a) shall apply to meetings held after the date
22 of the enactment of this Act.

1 **SEC. 509. ENROLLED AGENTS.**

2 (a) IN GENERAL.—Chapter 77 (relating to miscella-
3 neous provisions) is amended by adding at the end the
4 following new section:

5 **“SEC. 7528. ENROLLED AGENTS.**

6 “(a) IN GENERAL.—The Secretary may prescribe
7 such regulations as may be necessary to regulate the con-
8 duct of enrolled agents in regards to their practice before
9 the Internal Revenue Service.

10 “(b) USE OF CREDENTIALS.—Any enrolled agents
11 properly licensed to practice as required under rules pro-
12 mulgated under section (a) herein shall be allowed to use
13 the credentials or designation as ‘enrolled agent’, ‘EA’, or
14 ‘E.A.’.”.

15 (b) CLERICAL AMENDMENT.—The table of sections
16 for chapter 77 is amended by adding at the end the fol-
17 lowing new item:

 “Sec. 7528. Enrolled agents.”.

18 (c) PRIOR REGULATIONS.—Nothing in the amend-
19 ments made by this section shall be construed to have any
20 effect on part 10 of title 31, Code of Federal Regulations,
21 or any other Federal rule or regulation issued before the
22 date of the enactment of this Act.

23 **SEC. 510. FINANCIAL MANAGEMENT SERVICE FEES.**

24 Notwithstanding any other provision of law, the Fi-
25 nancial Management Service may charge the Internal Rev-

1 enue Service, and the Internal Revenue Service may pay
 2 the Financial Management Service, a fee sufficient to
 3 cover the full cost of implementing a continuous levy pro-
 4 gram under subsection (h) of section 6331 of the Internal
 5 Revenue Code of 1986. Any such fee shall be based on
 6 actual levies made and shall be collected by the Financial
 7 Management Service by the retention of a portion of
 8 amounts collected by levy pursuant to that subsection.
 9 Amounts received by the Financial Management Service
 10 as fees under that subsection shall be deposited into the
 11 account of the Department of the Treasury under section
 12 3711(g)(7) of title 31, United States Code, and shall be
 13 collected and accounted for in accordance with the provi-
 14 sions of that section. The amount credited against the tax-
 15 payer's liability on account of the continuous levy shall
 16 be the amount levied, without reduction for the amount
 17 paid to the Financial Management Service as a fee.

18 **SEC. 511. EXTENSION OF INTERNAL REVENUE SERVICE**

19 **USER FEES.**

20 (a) IN GENERAL.—Chapter 77 (relating to miscella-
 21 neous provisions), as amended by section 509, is further
 22 amended by adding at the end the following new section:

23 **“SEC. 7529. INTERNAL REVENUE SERVICE USER FEES.**

24 “(a) GENERAL RULE.—The Secretary shall establish
 25 a program requiring the payment of user fees for—

1 “(1) requests to the Internal Revenue Service
2 for ruling letters, opinion letters, and determination
3 letters, and

4 “(2) other similar requests.

5 “(b) PROGRAM CRITERIA.—

6 “(1) IN GENERAL.—The fees charged under the
7 program required by subsection (a)—

8 “(A) shall vary according to categories (or
9 subcategories) established by the Secretary,

10 “(B) shall be determined after taking into
11 account the average time for (and difficulty of)
12 complying with requests in each category (and
13 subcategory), and

14 “(C) shall be payable in advance.

15 “(2) EXEMPTIONS, ETC.—

16 “(A) IN GENERAL.—The Secretary shall
17 provide for such exemptions (and reduced fees)
18 under such program as the Secretary deter-
19 mines to be appropriate.

20 “(B) EXEMPTION FOR CERTAIN REQUESTS
21 REGARDING PENSION PLANS.—The Secretary
22 shall not require payment of user fees under
23 such program for requests for determination
24 letters with respect to the qualified status of a
25 pension benefit plan maintained solely by 1 or

1 more eligible employers or any trust which is
2 part of the plan. The preceding sentence shall
3 not apply to any request—

4 “(i) made after the later of—

5 “(I) the fifth plan year the pen-
6 sion benefit plan is in existence, or

7 “(II) the end of any remedial
8 amendment period with respect to the
9 plan beginning within the first 5 plan
10 years, or

11 “(ii) made by the sponsor of any pro-
12 totype or similar plan which the sponsor
13 intends to market to participating employ-
14 ers.

15 “(C) DEFINITIONS AND SPECIAL RULES.—

16 For purposes of subparagraph (B)—

17 “(i) PENSION BENEFIT PLAN.—The
18 term ‘pension benefit plan’ means a pen-
19 sion, profit-sharing, stock bonus, annuity,
20 or employee stock ownership plan.

21 “(ii) ELIGIBLE EMPLOYER.—The
22 term ‘eligible employer’ means an eligible
23 employer (as defined in section
24 408(p)(2)(C)(i)(I)) which has at least 1
25 employee who is not a highly compensated

1 employee (as defined in section 414(q))
 2 and is participating in the plan. The deter-
 3 mination of whether an employer is an eli-
 4 gible employer under subparagraph (B)
 5 shall be made as of the date of the request
 6 described in such subparagraph.

7 “(iii) DETERMINATION OF AVERAGE
 8 FEES CHARGED.—For purposes of any de-
 9 termination of average fees charged, any
 10 request to which subparagraph (B) applies
 11 shall not be taken into account.

12 “(3) AVERAGE FEE REQUIREMENT.—The aver-
 13 age fee charged under the program required by sub-
 14 section (a) shall not be less than the amount deter-
 15 mined under the following table:

“Category	Average Fee
Employee plan ruling and opinion	\$250
Exempt organization ruling	\$350
Employee plan determination	\$300
Exempt organization determination	\$275
Chief counsel ruling	\$200.

16 “(c) TERMINATION.—No fee shall be imposed under
 17 this section with respect to requests made after September
 18 30, 2013.”.

19 (b) CONFORMING AMENDMENTS.—

1 (1) The table of sections for chapter 77 is
 2 amended by adding at the end the following new
 3 item:

 “Sec. 7529. Internal Revenue Service user fees.”.

4 (2) Section 10511 of the Revenue Act of 1987
 5 is repealed.

6 (3) Section 620 of the Economic Growth and
 7 Tax Relief Reconciliation Act of 2001 is repealed.

8 (c) LIMITATIONS.—Notwithstanding any other provi-
 9 sion of law, any fees collected pursuant to section 7527
 10 of the Internal Revenue Code of 1986, as added by sub-
 11 section (a), shall not be expended by the Internal Revenue
 12 Service unless provided by an appropriations Act.

13 (d) EFFECTIVE DATE.—The amendments made by
 14 this section shall apply to requests made after the date
 15 of the enactment of this Act.

16 **TITLE VI—LOW-INCOME** 17 **TAXPAYER CLINICS**

18 **SEC. 601. LOW-INCOME TAXPAYER CLINICS.**

19 (a) LIMITATION ON AMOUNT OF GRANTS.—Para-
 20 graph (1) of section 7526(c) (relating to special rules and
 21 limitations) is amended by striking “\$6,000,000 per year”
 22 and inserting “\$9,000,000 for 2004, \$12,000,000 for
 23 2005, and \$15,000,000 for each year thereafter”.

1 (b) PROMOTION OF CLINICS.—Section 7526(c) is
2 amended by adding at the end the following new para-
3 graph:

4 “(6) PROMOTION OF CLINICS.—The Secretary
5 is authorized to promote the benefits of and encour-
6 age the use of low-income taxpayer clinics through
7 the use of mass communications, referrals, and other
8 means.”.

9 (c) USE OF GRANTS FOR OVERHEAD EXPENSES
10 PROHIBITED.—Section 7526(c), as amended by sub-
11 section (b), is further amended by adding at the end the
12 following new paragraph:

13 “(7) USE OF GRANTS FOR OVERHEAD EX-
14 PENSES PROHIBITED.—No grant made under this
15 section may be used for the general overhead ex-
16 penses of any institution sponsoring a qualified low-
17 income taxpayer clinic.”.

18 (d) ELIGIBLE CLINICS.—

19 (1) IN GENERAL.—Paragraph (2) of section
20 7526(b) is amended to read as follows:

21 “(2) ELIGIBLE CLINIC.—The term ‘eligible clin-
22 ic’ means—

23 “(A) any clinical program at an accredited
24 law, business, or accounting school in which

1 students represent low-income taxpayers in con-
 2 troversies arising under this title; and

3 “(B) any organization described in section
 4 501(c) and exempt from tax under section
 5 501(a) which satisfies the requirements of para-
 6 graph (1) through representation of taxpayers
 7 or referral of taxpayers to qualified representa-
 8 tives.”.

9 (2) CONFORMING AMENDMENT.—Subparagraph
 10 (A) of section 7526(b)(1) is amended by striking
 11 “means a clinic” and inserting “means an eligible
 12 clinic”.

13 **TITLE VII—FEDERAL-STATE UN-** 14 **EMPLOYMENT ASSISTANCE** 15 **AGREEMENTS**

16 **SEC. 701. APPLICABILITY OF CERTAIN FEDERAL-STATE** 17 **AGREEMENTS RELATING TO UNEMPLOY-** 18 **MENT ASSISTANCE.**

19 Effective as of May 25, 2003, section 208 of Public
 20 Law 107 09147 is amended—

21 (1) in subsection (a)(2), by inserting “on or”
 22 after “ending”; and

23 (2) in subsection (b), by striking “May 31”
 24 each place it appears and inserting “June 1”.